Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

THE WHITE HOUSE
WASHINGTON

Executive Registry
84-1690

# CABINET AFFAIRS STAFFING MEMORANDUM

**Date:** 4/10/84 **Number:** 168964CA **Due By:**

**Subject:** Minutes of the Cabinet Council on Economic Affairs

March 8, 15, 29 and April 3 and 5, 1984

| | Action | FYI |
|---|---|---|
| **ALL CABINET MEMBERS** | ☐ | ☑ |
| Vice President | ☐ | ☐ |
| State | ☐ | ☐ |
| Treasury | ☐ | ☐ |
| Defense | ☐ | ☐ |
| Attorney General | ☐ | ☐ |
| Interior | ☐ | ☐ |
| Agriculture | ☐ | ☐ |
| Commerce | ☐ | ☐ |
| Labor | ☐ | ☐ |
| HHS | ☐ | ☐ |
| HUD | ☐ | ☐ |
| Transportation | ☐ | ☐ |
| Energy | ☐ | ☐ |
| Education | ☐ | ☐ |
| Counsellor | ☐ | ☐ |
| OMB | ☐ | ☐ |
| CIA | ☐ | ☐ |
| UN | ☐ | ☐ |
| USTR | ☐ | ☐ |
| GSA | ☐ | ☐ |
| EPA | ☐ | ☐ |
| OPM | ☐ | ☐ |
| VA | ☐ | ☐ |
| SBA | ☐ | ☐ |

| | Action | FYI |
|---|---|---|
| CEA | ☐ | ☑ |
| CEQ | ☐ | ☐ |
| OSTP | ☐ | ☐ |
| | ☐ | ☐ |
| | ☐ | ☐ |
| | ☐ | ☐ |
| Baker | ☐ | ☑ |
| Deaver | ☐ | ☐ |
| Darman *(For WH Staffing)* | ☑ | ☐ |
| Jenkins | ☐ | ☑ |
| Mc Farlane | ☐ | ☑ |
| Svahn | ☑ | ☐ |
| | ☐ | ☐ |
| | ☐ | ☐ |
| | ☐ | ☐ |
| | ☐ | ☐ |
| | ☐ | ☐ |
| CCCT/Gunn | ☐ | ☑ |
| CCEA/Porter | ☐ | ☑ |
| CCFA/ | ☐ | ☑ |
| CCHR/Simmons | ☐ | ☑ |
| CCLP/Uhlmann | ☐ | ☑ |
| CCMA/Bledsoe | ☐ | ☑ |
| CCNRE/ | ☐ | ☑ |

**REMARKS:** Attached for your information are the minutes from the following meetings of the Cabinet Council on Economic Affairs:

March 8, 15, and 29, 1984

April 3 and 5, 1984

**RETURN TO:**

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☐ Katherine Anderson
☑ Tom Gibson
Associate Director
Office of Cabinet Affairs
456-2800

☐ Don Clarey
☐ Larry Herbolsheimer

L-300B

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

March 8, 1984
2:00 p.m.
Cabinet Room

Attendees: The President, Messrs: Regan, Smith, Clark, Baldrige, Pierce, Feldstein, Svahn, Darman, Fuller, Jenkins, Porter, Lyng, Ford, Jones, Lighthizer, Verstanding, Wright, Baroody, Chapman, Cicconi, Cribb Cogan, Fitzwater, McMinn, Gibson and McAllister, and Ms. Heckler, Ms. Dole, Ms. Risque and Ms. Anderson.

1. Economic Impact of Demographic Shifts

Sidney Jones, Under Secretary of Commerce, presented a review of likely future demographic shifts and their implications for both the economy and the services the Federal Government provides. He stated that the most significant population trend is the decline in the birth rate. The average number of births per women fell from 3.8 in 1957 to 1.8 in 1974, and has remained at that level since then. This slowing of the birth rate will lead to an older population. The median age in 1982 was 30.6 years; it is expected to increase to 37 years by the year 2000. By the year 2030 U.S. population growth is expected to result solely from immigration. By the year 2050 population growth will be flat.

Mr. Jones stated that the aging of the population will lead to a rapid increase in expenditures for social security and medicare. By the year 2030, 21 percent of the population will be 65 or older and 10 percent will be 75 or older. The increasing longevity of Americans will also be a major factor in retirement and health programs. The average 65 year old male has 14 years of prospective retirement; his female counterpart can expect more than 18 years.

Mr. Jones stated that the age group 20 to 54, the prime working years, grew 48 percent in the 1970's; but will grow only 15 percent in the 1980's. The age group 20 to 24, which grew 26 percent in 1970's, will decline by 14 percent in the 1980's. The 18 to 19 age group which grew at a 16 percent rate in the 1970's will decline at an 18 percent rate in the 1980's. The aging of the population has several economic implications including: less demand for housing and consumer durables and an increase in labor productivity.

Mr. Jones stated that the population is also shifting regionally. In the 1970's the Northeast population grew less than 1 percent, the North Central states grew 4 percent, the South 20 percent and the West 24 percent. In the 1980's growth in the Northeast and North Central will be flat or decline. The South and West will

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8



become the most populated regions. This trend will intensify a dichotomy: the tax base will expand in the South and West while the Northeast will experience increasing fiscal pressures.

Mr. Jones stated that immigration is of growing importance in our population. One third of recent population changes reflect immigration. Immigration increased from 3 million in the 1960's to 4 million in the 1970's. European immigration is becoming increasingly less significant, with immigration from Asia and Latin America becoming more significant. Non-European immigration increased from 60 percent in the 1960's to more than 80 percent in the 1980's.

Mr. Jones noted that the male labor force participation has leveled off at about 75 percent for males. The female working force has increased as a percent of females from 43 percent in 1970 to 53 percent in 1982.

He stated that poverty is increasingly a function of family composition and not race. Births out of wedlock will be increasing, with only 7 percent of the fathers providing assistance. Twelve percent of white families will not have a father present; forty percent of Black families will not have a father present. In 1960, 24 percent of the families in poverty were maintained by women. In 1980, 48 percent of families in poverty were maintained by women. Federal transfer programs are increasing oriented toward females: twenty-five percent of families headed by women receive AFDC, 30 percent receive food stamps, and 23 percent receive housing assistance. Black families aged 25-34, with both parents working, earn 89 percent of the income of their white counterparts. When adjusted for family the real median income of whites increased three percent in the 1970's, while the real median income of blacks increased 11 percent.

Mr. Jones stated that the Cabinet Council on Economic Affairs is developing four additional studies of the effects of demographic shifts on: the social security system; medicare; the elderly; and immigration. These studies will be informational and not offer policy recommendations. They will not be available until late 1984.

Secretary Dole suggested that an additional study be conducted on the economic impact of changing women's demographics.

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8



The Council's discussion focused on a number of topics, including the policies aimed at child support enforcement, the depleting medicare trust fund, and the implication of greater immigration for family composition.

The President stressed the negative impact of many Government programs on the family.

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

March 15, 1984
8:45 a.m.
Roosevelt Room

Attendees: Messrs: Regan, Block, Donovan, Svahn, Wright, Abrams, Chapoton, Cogan, Jones, Lighthizer, Niskanen, Baroody, Chapman, Cicconi, Coy, Fitzwater, Neal, Monks, Platt, Tharp and McAllister; Ms. McLaughlin, Ms. Utgoff, and Ms. McCaffrey.

1. Pending Tax Legislation

Assistant Secretary of the Treasury for Tax Policy John Chapoton reviewed for the Cabinet Council the status of pending tax legislation. Mr. Chapoton stated that the Senate Finance Committee approved a tax package containing three initiatives proposed in Administration's FY 1985 Budget, including: establishing enterprise zones; increasing spousal IRAs; and extending existing R and D tax credits. In the later case, the Administration is seeking a three year extension of the credit; the Finance Committee proposes extending the credit permanently. All three proposals became part of a comprehensive Senate deficit reduction package likely to reach a House-Senate conference committee by the beginning of April, at the earliest.

Mr. Chapoton also reviewed revenue provisions recently adopted by the House Ways and Means Committee as an amendment to H.R. 4170, which was reported by Ways and Means during the last session, but not acted upon by the full House. Many of the Administration's FY 1985 revenue proposals have been incorporated into the Committee's current bill, including: limiting the use of sale-leaseback tax benefits; reforming the current method of taxing life insurance companies; and capping the use of industrial development bonds. The amendment also would extend, through 1988, tax exemptions for interest on mortgage subsidy bonds and permit State and local governments to elect to exchange part or all mortgage bond authority for alternate authority to issue mortgage credit certificates, entitling homeowners to non-refundable income tax credits -- an approach the Administration supports as more efficient than the mortgage subsidy bond program.

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8



Mr. Chapoton stated the House bill also contains additional revenue provisions not proposed by the Administration, including: maintaining the top 60 percent rate for gift and estate tax liability -- rather than permitting the rate to decline to 55 percent in 1984 as provided under ERTA; effectively increasing excise taxes on the cigarettes and distilled spirits; and extending to 1988 the current telephone excise tax. The Senate bill also contains a provision, not proposed by the Administration, which extends from 15 years to 20 years the period for accelerated cost recovery on real estate.

The Cabinet Council discussion focused on the problems of compounded revenue losses under accelerated cost recovery, where succesive owners claim tax benefits for depreciation of the same real property; the distinctions between various types of real estate investments; the wisdom of permanently extending the incremental R and D tax credit; and the impact of the Finance Committee proposal on low-income housing programs.

2. Reversion of Surplus Pension Assets

Secretary Donovan presented a paper outlining a proposed Administration policy on the reversion of surplus assets from terminated pension plans. The issue of pension plan terminations has attracted attention recently because the number of overfunded single-employer plans and reversions has increased over the past few years, including reversions by A & P, Harper & Row, and Amex, each involving surplus assets of more than one million dollars.

Secretary Donovan stated that the Working Group on Pension Policy, including representatives of the Department of Labor, the Pension Benefit Guaranty Corporation, and the Internal Revenue Service, has spent more than six months studying the issue. The Working Group concluded that: 1) the voluntary private pension system under ERISA is working well and should not be impeded by unnecessary government interference; 2) ERISA clearly permits employers to recover excess assets upon termination of defined benefit plans; and 3) to the extent some technical problems exist, they are minor and can best be corrected through administrative measures.

Mr. Monks, Administrator of Pension and Welfare Benefit Programs at the Department of Labor stated that the Working Group identified the following problems with the current system: 1) interest rates for annuities purchased for employees, following a

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8



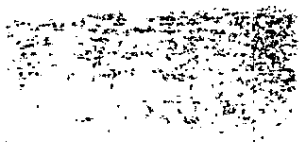
termination, are often overstated, resulting in less income to the retiree than anticipated; 2) "midnight" terminations where employers terminate overfunded plans without sufficient notice to employees are growing; and 3) requisite phase-in periods of five years for insuring new plans often leave participants without insurance. He indicated that administrative steps are being taken to correct these problems.

The Council's discussion focused on the volume of terminations and reversions; the market factors causing overfunded plans; and the methods employers currently use in terminating plans to capture surplus assets.

The Cabinet Council agreed to: 1) oppose legislation enacting a moratorium on plan terminations and any related legislation seeking to transfer the property rights to excess assets from employers to employees; and 2) reject the Working Group proposal for a public policy-statement, prefering instead to weave the major elements of the proposed statement into the Department of Labor testimony scheduled March 20. The Council reasoned that a formal policy statement could easily be misconstrued, possibly suggesting that the Administration is not cognizant of employees' pension rights and expectations.

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8



**MINUTES**
**CABINET COUNCIL ON ECONOMIC AFFAIRS**

**March 29, 1984**
**8:45 a.m.**
**Roosevelt Room**

Attendees: The Vice President, Messrs. Regan, Block, Baldrige, Brock, Porter, Wright, Burnley, Wallis, DeMuth, Ford, Niskanen, O'Shaughnessy, Cicconi, Gibson, Gray, Rhodes, and Li, and Ms. McLaughlin, Ms. Risque, and Ms. Chao.

1. Report on Secretary Regan's Trip to East Asia

Secretary Regan reviewed his recent trip to the People's Republic of China (PRC), Japan, and South Korea. He noted that the PRC economy is moving toward more open markets in its industrial as well as agricultural sectors and has recently experienced a significant upturn in agricultural production. The Chinese premier expressed his hope that the President will be able to sign a bilateral investment treaty, as well as a bilateral tax treaty, during his trip next month to the PRC. Both sides agreed to push for an agreement on the bilateral investment treaty. Chinese officials stated that the PRC will purchase the full amount of grain to which they are committed under the terms of the U.S.-China grain agreement, but that they will not be able to ship the full amount by the end of the fiscal year because of difficulty of getting into U.S. ports.

Chinese officials raised the issue of PRC membership in the Asian Development Bank. Secretary Regan stated that while the U.S. believes that the PRC is entitled to the China seat, it supports the right of Taiwan to remain a member.

Secretary Regan reviewed his discussions with Japanese officials. He discussed the importance of liberalizing Japanese financial markets and emphasized the need for concrete action on trade and investment issues before the London Economic Summit. The Council discussed the possible actions the U.S. government may have to take if the Japanese response is inadequate.

Secretary Regan briefly noted that the South Korean economy is performing well with high real growth and low inflation. He stressed to Korean officials the need to provide more equitable treatment for U.S. banks.

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8



The Council's discussion included a review of textile imports. The Vice President requested that a brief paper be prepared on the textile industry and import situation in view of the statements made during the 1980 campaign.

2. Report of the Working Group on Regulation and Market Intervention

At a Cabinet Council meeting on February 10, the Council asked the Working Group on Regulation and Market Intervention to elaborate on a proposal to establish a formal procedure for setting regulatory policy goals and priorities. Mr. DeMuth presented a report that discussed in greater detail the purposes of a regulatory planning process, its proposed procedures, and the time period for implementing such a process.

A systematic planning process would seek:

1. To revitalize the regulatory reform process. Since the Presidential Task Force on Regulatory Relief completed its work, the Administration has essentially been reacting to regulatory proposals.

2. To develop a mechanism for providing direction from the top to the rulemaking machinery. Given the broad discretion given by the Congress to the executive branch in developing many regulations and extensive litigation and administrative rulings, it is important that senior Administration officials have an opportunity to shape regulatory proposals at an early stage in the rulemaking process.

Under such a planning process, each agency would establish regulatory priorities over the coming year. Agencies would evaluate new regulations and review existing rules to determine whether they should be revised or eliminated. The Office of Management and Budget would then review all agency proposals, develop a package of the most important regulations that need to be reviewed, and present this package to a Cabinet Council.

While some preliminary work can be done over the next few months, the planning process could begin on a government-wide basis in January 1985. Mr. DeMuth expressed his view of the importance of coupling such a planning process with a strong program for statutory regulatory reform. Without statutory changes, it is difficult to make meaningful changes in certain regulatory areas.

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8



The Council discussed the scope of the planning process. Mr. DeMuth argued that review by the Administration of independent agency regulations is not unconstitutional, but that it would be very difficult to include independent agency regulations in the planning process at this time.

Some Council members expressed the concern that although a planning process could initially strengthen the review process, it could result in a paperwork exercise or follow a pattern similar to that of the Planning, Programming, and Budgeting System (PPBS) in the 1960's. The success of regulatory reform depends primarily on the commitment of agency leadership.

Mr. DeMuth argued that while there is a risk that a regulatory planning process could result in a perfunctory exercise, if properly structured it could serve as an effective means of shaping regulatory policy, as well as a useful complement to the President's budget.

Some Council members suggested that the current regulatory review system already provides adequate review of regulations. Others argued that the current system is basically a reactive mechanism. Given the deadlines, there is often little time to set broad policy direction and review proposed regulations at a senior level.

Mr. DeMuth will prepare a report addressing the issues raised by the Council.

3. Argentine Debt Situation

Secretary Regan briefly reviewed the Argentine debt situation. He expressed his hope and anticipation that there will be a final package by this weekend.

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

[redacted]

**MINUTES**
**CABINET COUNCIL ON ECONOMIC AFFAIRS**

**April 3, 1984**
**8:45 a.m.**
**Roosevelt Room**

**Attendees:** **Messrs. Regan, Block, Baldrige, Pierce, Porter, Wright, Ballentine, Healey, Murphy, Niskanen, Donatelli, Gibson, Knapp, Platt, and Li, and Ms. Risque.**

1. Report of the Working Group on Federal Credit Policy

Mr. Ballentine presented a report from the Working Group on Federal Credit Policy. The report addressed two issues: Trusts for Investment in Mortgages (TIMs) and privatization of the Federal Home Loan Mortgage Corporation (FHLMC).

Trusts for Investment in Mortgages

The Council reviewed a final draft of its memorandum to the President regarding TIMs. The memorandum reviewed the TIMs proposal, its likely effect on the housing market and private secondary mortgage market, and presented for decision three issues:

1. Should the Administration submit TIMs legislation?

2. Should any TIMs legislation allow government agency securities (guaranteed mortgage backed securities) to be used as collateral for TIMs?

3. Should any TIMs legislation allow government agencies to participate directly in TIMs arrangements?

The Council discussed the strong Congressional pressure for the Administration to follow through on its commitment to submit TIMs legislation and the greater attractiveness of TIMs that would result from a likely Financial Accounting Standards Board (FASB) ruling that Collateralized Mortgage Obligations (CMOs), an instrument similar to TIMs, must be treated as debt.

Some Council members expressed their concern about the financial condition of the Federal National Mortgage Association (FNMA) and the need for it to participate in TIMs. Other Council members argued that government sponsored enterprises should not be permitted to participate in TIMs in order to encourage expansion of a private secondary mortgage market.

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8



The Council noted that Senators Garn and Tower have publicly urged the Administration to submit TIMs legislation. Council members observed that the rapid growth of CMOs in the last nine months, the strength of the current housing market, the need for further analysis of the effect of TIMs on FNMA's financial condition, the shift in position of several industry groups from supporting to opposing submission of TIMs legislation, and the dim prospects for legislative passage this year are strong reasons for not submitting legislation at this time.

The Council agreed that Secretary Pierce should have the opportunity to work out an arrangement with Senators Garn and Tower to postpone submitting TIMs legislation at least until next year. Secretary Pierce managed to work out such an arrangement with the Senators before the meeting ended. The Chairman Pro Tempore requested the Executive Secretary to coordinate preparation of a letter from him to Senators Garn and Tower confirming the understanding.

Federal Home Loan Mortgage Corporation Privatization

Mr. Ballentine reviewed the issue of privatizing FHLMC. On November 4, 1983, the Administration testified in support of taxing FHLMC. Senator Dole has included the taxation of FHLMC in the Senate Finance Committee tax bill. Federal Home Loan Bank Board Chairman Gray recommends that taxation of FHLMC be made effective only if accompanied by full privatization of FHLMC. Although Senator Dole has rejected linking FHLMC taxation to privatization, these developments present the Administration with a new opportunity to pursue FHLMC privatization.

The Council discussed the need to determine how various interested parties define privatization. To some, privatization, while involving the taxation of FHLMC and distribution and public trading of its stock, would allow it to maintain some of its ties to the Federal Government. To others, privatization connotes full severance of all links between FHLMC and the Government.

The Council discussed the need to explore fully the impact of FHLMC privatization on FNMA and private sector activity in the secondary mortgage market. There is a risk that privatization of FHLMC without changing the status of FNMA would leave FNMA in a monopoly position over much of the secondary mortgage market.

Finally, the Council discussed appropriate transition arrangements for outstanding FHLMC securities. The Working

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

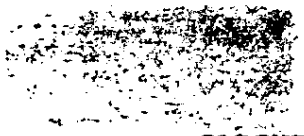


Group is currently examining the legal requirements for Federal backing of FHLMC obligations.

The Council requested the Working Group to analyze the issues further for future Council consideration.

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8



**MINUTES**
**CABINET COUNCIL ON ECONOMIC AFFAIRS**

**April 5, 1984**
**8:45 a.m.**
**Roosevelt Room**

**Attendees:** Messrs. Regan, Block, Baldrige, Brock, Stockman, Feldstein, Porter, Wright, Abrams, Benjamin, Burnley, Cicconi, Cogan, Gibson, Leonard, Lesher, Platt, and Li, Ms. McLaughlin and Ms. Risque.

1. Budget Outlook

Mr. Stockman made a detailed presentation of the effect on the budget of the difference between the economic assumptions used in January 1983 and the April 1984 update. He compared the revised assumptions and actual changes in nominal Gross National Product (GNP), unemployment, inflation, and interest rates. Much of the budget gain from stronger than expected economic growth is offset by higher than expected interest payments and technical reestimates.

The Council discussed the effect that reductions in unemployment has on the budget deficit. The historical relationship between unemployment and deficits has not held in this recovery. Unemployment has declined at a faster rate than normal relative to an increase in nominal GNP. Council members noted that the relationship between budget receipts and nominal GNP has remained relatively stable.

Mr. Stockman reviewed the likely effect of the downpayment compromise on the budget in fiscal years 1985 through 1987. He also reviewed the effect on the budget if interest rates and economic growth are either higher or lower than our current economic assumptions.

2. Economic Conditions in Agriculture

Secretary Block reviewed current economic conditions in the agricultural sector noting that only about 15 percent of the nation's farmers are in financial trouble, many of whom are the larger farmers who borrowed heavily to expand their operations. Although prices of most major agricultural commodities have risen and many surpluses have been substantially reduced, the perception in much of the farm community is that conditions are not good.

Mr. Lesher reviewed the basic structure of government farm programs. The basic outline of many farm programs was established in the 1930's. In the 1960's and 1970's, the

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8



U.S. built an agricultural infrastructure predicated on continuing strong demand. However, developments in the early 1980's relating to the weather, a worldwide recession, and political factors affecting grain sales contributed to the difficulties experienced by the U.S. farm sector. Demand for U.S. farm products actually declined in contrast to the 3-4 percent annual growth rate of the 1970's.

The Department of Agriculture estimates that 2-4 percent of farmers will go out of business in 1984, compared to 1.5 percent in 1983. About 10-15 percent of farmers are in significant financial trouble, while about 30-40 percent have been adversely affected by depreciating land values.

Secretary Regan requested that the Council continue discussion of this topic at a subsequent Council meeting.

Approved For Release 2008/08/20 : CIA-RDP86M00886R002000010004-8